

MILAN SPECIAL SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

MILAN SPECIAL SCHOOL DISTRICT

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INTRODUCTORY SECTION

**MILAN SPECIAL SCHOOL DISTRICT
DIRECTORY
June 30, 2014**

ELECTED OFFICIALS

Jimmy Copous, Chairman
Kenny Carmichael, Vice Chairperson
Steve Brasher, Member
Marty Elliott, Member
Darren Riggs, Member
Gregory Horton, Member
David Nelson, Member

APPOINTED OFFICIALS

Dr. Mary Reel, Director of Schools
Dawn Darden, Supervisor of Accountability
Diane Holt, Bookkeeper – Federal Projects and Central Cafeteria

COUNSEL

W. Collins Bonds
Kizer, Bonds & Hughes
Milan, Tennessee

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

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AICPA Center for Public Company Audit Firms
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Independent Auditor's Report

Board of Education
Milan Special School District
Milan, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Special School District, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milan Special School District, as of June 30, 2014, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 and the required supplementary information on pages 51 and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Milan Special School District's basic financial statements. The introductory section and supplementary and other information section including the schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary and other information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and other information section is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the Milan Special School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milan Special School District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
November 14, 2014

Management's Discussion and Analysis

As management of the Milan Special School District (the District), we offer readers of the financial statements for the District this narrative overview and analysis of the financial activities for the year ended June 30, 2014. We encourage readers to consider the information here in conjunction with the Independent Auditor's Report and the District's financial statements. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A). Comparative analyses of key elements of total governmental funds have been provided.

Financial Highlights

- The assets of the District exceeded its liabilities at June 30, 2014 by \$5,022,936. Of this amount, \$(315,228) is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balance of \$2,512,502.
- At the end of the current fiscal year, unassigned fund balance for the general purpose fund was \$1,415,929, or 9% percent of total general purpose fund expenditures.
- The District's total bonded debt decreased by \$830,000.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and supplementary and other information in addition to the basic financial statements themselves.

District-wide financial statement The *district-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents all the assets, liabilities and deferred inflows/outflows of resources for the District, with differences reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Please refer to the Table of Contents to locate the district-wide financial statements.

Both of the district-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs. The District's governmental activities include general administration, finance and education. The District has no business-type activities to report.

Please refer to the Table of Contents to locate the other information.

Fund financial statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be grouped into one category: governmental funds.

Governmental funds *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general purpose fund and the non-major funds, of which the general purpose fund is considered to be a major fund and the federal projects, the cafeteria, and the capital projects funds are considered to be non-major funds.

The District adopts an annual appropriated budget for its general purpose and cafeteria funds. The District adopts a federal projects program and the budget for the federal projects fund is determined by the grantor of each grant. A budgetary comparison statement has been provided in the basic financial statements for the general purpose fund to demonstrate compliance with this budget. Also, budgetary comparison statements have been provided for each non-major fund in the supplementary and other section with the exception of the education capital projects fund. No annual budget is adopted for the education capital projects fund; therefore, no budgetary comparative statement has been provided. All funds expenditures were under budget with the exception of the cafeteria fund as noted on page 60 of the financials. The total expenditures exceeded the budget by \$3,595.

Please refer to the Table of Contents to locate the basic financial statements, the fund financial statements, and the supplementary and other information.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. Please refer to the Table of Contents to locate the notes to the financial statements.

Other information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This required supplementary information has been presented in the required supplementary information section of this report. The non-major funds statements of revenues, expenditures, and changes in fund balances are presented as supplementary and other information.

Please refer to the Table of Contents to locate the notes to the financial statements.

District-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5,022,936 at the close of the fiscal year ended June 30, 2014.

A large portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. Milan Special School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Milan Special School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Assets:		
Current and other	\$ 6,428,497	\$ 6,832,823
Capital assets - net of accumulated depreciation	<u>14,139,431</u>	<u>14,257,883</u>
Total assets	<u>20,567,928</u>	<u>21,090,706</u>
Liabilities:		
Long-term liabilities	11,569,449	12,094,887
Other liabilities	<u>732,141</u>	<u>744,985</u>
Total liabilities	<u>12,301,590</u>	<u>12,839,872</u>
Deferred inflows of resources:		
Unavailable revenue	<u>3,243,402</u>	<u>3,226,088</u>
Net Position:		
Net investment in capital asset	5,179,887	4,467,384
Restricted	158,277	163,550
Unrestricted	<u>(315,228)</u>	<u>393,812</u>
Total net position	<u>\$ 5,022,936</u>	<u>\$ 5,024,746</u>

The above provides a summary of the District's net position for 2014 and 2013.

An additional portion of the District's net position, \$158,277, or 3%, represents resources that are subject to external restrictions on how they may be used or their use is narrower than the purpose of the fund in which they are reported. The remaining balance of *unrestricted net position* \$(315,228), may be used to meet the government's ongoing obligations to citizens and creditors.

The District's total net position decreased by \$1,810 during the year ended June 30, 2014.

The following summary shows the changes in net position for fiscal years ended June 30, 2014 and 2013:

The District's Changes in Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Revenues:		
Program revenues		
Charges for services	\$ 233,992	\$ 265,938
Operating grants and contributions	3,490,413	3,212,345
General revenues		
Property taxes	3,352,060	3,365,595
Sales taxes	1,293,353	1,239,666
Mixed drink tax	282	282
Grants and contributions not restricted to certain programs	10,602,356	10,492,014
Interest	2,006	2,140
Other miscellaneous revenues	14,317	25,302
Total revenues	<u>18,988,779</u>	<u>18,603,282</u>
Expenses:		
Instruction	\$ 9,695,189	\$ 10,012,168
Support services	6,828,841	6,304,213
Non-instructional services	2,325,161	2,374,037
Total expenses	<u>18,849,191</u>	<u>18,690,418</u>
Change in net position	<u>139,588</u>	<u>(87,136)</u>
Net position, beginning	5,024,746	5,111,882
Prior period adjustment	<u>(141,398)</u>	-
Net assets, beginning - restated	<u>4,883,348</u>	-
Net position, ending	<u>5,022,936</u>	<u>5,024,746</u>

Governmental activities Governmental activities increased the District's net position by \$139,588.

Total governmental activities' revenue for the fiscal year ended June 30, 2014 was \$18,988,779 and \$18,603,282 for the year ended June 30, 2013. The largest single revenue source was grants and contributions not restricted for certain programs (including Basic Education Program funds).

Expense and Program Revenues – Governmental Activities

Certain revenues are generated that are specific to governmental program activities. See the District-wide Statement of Activities on pages 14 and 15.

Revenue by Source – Governmental Funds

Total governmental revenues allocated by each revenue type are as follows:

	June 30, 2014		June 30, 2013	
Revenues:				
Program revenues	Amount	Percent	Amount	Percent
Charges for services	\$ 233,992	1%	\$ 265,938	1%
Operating grants and contributions	3,490,413	18%	3,212,345	17%
General revenues				
Property taxes	3,352,060	18%	3,365,595	18%
Sales taxes	1,293,353	7%	1,239,666	7%
Mixed drink tax	282	0%	282	0%
Grants and contributions not				
restricted to certain programs	10,602,356	56%	10,492,014	56%
Interest	2,006	0%	2,140	0%
Other miscellaneous revenues	14,317	0%	25,302	0%
Total revenues	<u>\$ 18,988,779</u>	<u>100%</u>	<u>\$ 18,603,282</u>	<u>100%</u>

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's Board.

At June 30, 2014, the District's governmental funds reported combined fund balances of \$2,512,502, a decrease of (\$208,527) in comparison with the prior year. Approximately 56% of this amount \$1,415,929 constitutes *unassigned* fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form \$50,114, 2) legally required to be maintained intact \$0, 3) restricted for particular purposes \$108,163, 4) committed for particular purposes \$0, or 5) assigned for particular purposes \$938,296.

The general purpose fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance was \$1,415,929.

As a measure of the general purpose fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 56% of the total general purpose fund expenditures, while total fund balances represents 14% of that same amount.

The District's general purpose fund balance decreased by \$262,648 during the current fiscal year. As of June 30, 2013, the District assigned \$1,000,000 for improvements to be made with in the School District. The District spent \$370,970 of these assigned funds in 2014. This unusual spending contributed to the net loss in the General Fund. The District actual expenditures were under the budgeted amount by \$1,004,689.

General Purpose Fund Budgetary Highlights

Differences between the original budgets and the final amended budgets for the years ended June 30, 2014 and 2013 are briefly summarized as follows:

General Purpose Fund	June 30, 2014			June 30, 2013		
	Original	Final	Difference	Original	Final	Difference
Revenues						
Taxes	\$ 4,473,045	\$ 4,473,045	\$ -	\$ 4,333,045	\$ 4,333,045	\$ -
Intergovernmental	11,304,146	11,470,576	166,430	11,195,460	11,230,460	35,000
Miscellaneous	16,000	27,635	11,635	15,500	15,500	-
Total revenues	15,793,191	15,971,256	178,065	15,544,005	15,579,005	35,000
Expenditures						
Instruction	8,752,744	8,582,726	(170,018)	8,831,375	8,652,796	(178,579)
Support services	5,531,523	6,077,706	546,183	5,357,258	5,540,837	183,579
Non-instructional services	1,757,159	2,782,159	1,025,000	1,747,784	1,777,784	30,000
Total expenditures	16,041,426	17,442,591	1,401,165	15,936,417	15,971,417	35,000
Excess (deficiency) of revenues and other sources (uses) over (under) expenditures	(248,235)	(1,471,335)	(1,223,100)	(392,412)	(392,412)	-
Other financing sources (uses)	-	-	-	10,000	10,000	-
Net changes in fund balances	<u>\$ (248,235)</u>	<u>\$ (1,471,335)</u>	<u>\$ (1,223,100)</u>	<u>\$ (382,412)</u>	<u>\$ (382,412)</u>	<u>\$ -</u>

For the year ended June 30, 2014 and 2013, the increase in the budgeted revenues was mainly due to an increase in State education funds. During the year, revenues were more in the general purpose fund than budgetary estimates. The increases in budgeted expenditures were the result of increased payroll and related expenditures, increased utilities, increased capital outlay.

Capital Asset and Debt Administration

Capital Assets The District's investment in capital assets for its governmental funds as of June 30, 2014 and 2013, amounts to \$5,179,887 and \$4,467,384 (net of accumulated depreciation and related debt), respectively. This investment in capital assets includes land, buildings and improvements, and other capital assets (including equipment).

	June 30, 2014			
	July 1, 2013	Additions	Reductions	June 30, 2014
Capital assets not being depreciated:				
Land	\$ 854,415	\$ -	\$ -	\$ 854,415
Work in progress	24,194	295,775	-	319,969
	878,609	295,775	-	1,174,384
Capital assets being depreciated:				
Buildings and improvements	21,402,616	24,195	-	21,426,811
Other capital assets	1,977,793	215,029	-	2,192,822
	23,380,409	239,224	-	23,619,633

	June 30, 2014			
	July 1, 2013	Additions	Reductions	June 30, 2014
Accumulated depreciation:				
Buildings and improvements	8,529,470	586,641	-	9,116,111
Other capital assets	1,471,665	66,810	-	1,538,475
	<u>10,001,135</u>	<u>653,451</u>	<u>-</u>	<u>10,654,586</u>
Capital assets being depreciated, net	<u>13,379,274</u>	<u>(414,227)</u>	<u>-</u>	<u>12,965,047</u>
Capital assets, net of accumulated depreciation	<u>14,257,883</u>	<u>(118,452)</u>	<u>-</u>	<u>14,139,431</u>
Long-term debt related to capital assets	<u>(9,780,000)</u>	<u>-</u>	<u>(830,000)</u>	<u>(8,950,000)</u>
Capital assets net of accumulated depreciation and related debt	<u>4,477,883</u>	<u>(118,452)</u>	<u>(830,000)</u>	<u>5,189,431</u>
Bond premium	<u>(10,499)</u>	<u>-</u>	<u>(955)</u>	<u>(9,544)</u>
Net investment in capital asset	<u>\$ 4,467,384</u>	<u>\$ (118,452)</u>	<u>\$ (830,955)</u>	<u>\$ 5,179,887</u>

	June 30, 2013			
	July 1, 2012	Additions	Reductions	June 30, 2013
Capital assets not being depreciated:				
Land	\$ 854,415	\$ -	\$ -	\$ 854,415
Work in progress	-	24,194	-	24,194
	<u>854,415</u>	<u>24,194</u>	<u>-</u>	<u>878,609</u>
Capital assets being depreciated:				
Buildings and improvements	21,402,616	-	-	21,402,616
Other capital assets	1,885,200	92,593	-	1,977,793
	<u>23,287,816</u>	<u>92,593</u>	<u>-</u>	<u>23,380,409</u>
Accumulated depreciation:				
Buildings and improvements	7,944,039	585,431	-	8,529,470
Other capital assets	1,389,094	82,571	-	1,471,665
	<u>9,333,133</u>	<u>668,002</u>	<u>-</u>	<u>10,001,135</u>
Capital assets being depreciated, net	<u>13,954,683</u>	<u>(575,409)</u>	<u>-</u>	<u>13,379,274</u>
Capital assets, net of accumulated depreciation	<u>14,809,098</u>	<u>(551,215)</u>	<u>-</u>	<u>14,257,883</u>
Long-term debt related to capital assets	<u>(10,575,000)</u>	<u>-</u>	<u>(795,000)</u>	<u>(9,780,000)</u>
Capital assets net of accumulated depreciation and related debt	<u>4,234,098</u>	<u>(551,215)</u>	<u>(795,000)</u>	<u>4,477,883</u>
Bond premium	<u>(11,453)</u>	<u>-</u>	<u>(954)</u>	<u>(10,499)</u>
Net investment in capital asset	<u>\$ 4,222,645</u>	<u>\$ (551,215)</u>	<u>\$ (795,954)</u>	<u>\$ 4,467,384</u>

Long-term debt. As of June 30, 2014, the District had total bonded debt outstanding of \$8,950,000. As of June 30, 2013, the District had total bonded debt outstanding of \$9,780,000. All debt is backed by the full faith and credit of the government.

In addition to the previous information, the District's obligations include compensated absences and other post employment benefits.

	June 30, 2014	June 30, 2013
Bonds	\$ 8,950,000	\$ 9,780,000
Bond premium	9,544	10,499
OPEB liability	2,463,452	2,170,908
Compensated absences	146,453	133,480
	<u>\$ 11,569,449</u>	<u>\$ 12,094,887</u>

Additional information regarding the long-term debt of the District can be found in the Notes to the Financial Statements in Note 4F beginning on page 44.

The District maintains an "Aaa" rating by Moody's Investors Service, Inc. (Moody's) for general obligation debt.

Economic Factors and Next Year's Budget and Rates

The unemployment rate for Gibson County is currently 10.8%. The State's average unemployment rate is currently 7.4%. The national average unemployment rate is currently 6.1%. All of the rates are from labor statistics released in August 2014.

All of these factors were considered in preparing the District's budget for the 2014-2015 fiscal year.

The District's unassigned fund balance in the general purpose fund was \$786,898, for the fiscal year ending June 30, 2014. There is \$5,518 of restricted for the general purpose fund. Of this amount, \$5,518 has been appropriated for spending in the 2014-2015 fiscal year. It is intended that this use of available fund balance will avoid the need to raise taxes during the 2014-2015 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Milan Special School District, 1165 South Main Street, Milan, TN 38358.

BASIC FINANCIAL STATEMENTS

MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF NET POSITION
June 30, 2014

Assets:

Cash and cash equivalents	\$ 2,484,453
Accounts receivable	9,738
Taxes receivable	3,243,402
Due from other governmental agencies - nongrant	247,451
Due from other governmental agencies - grants	393,339
Inventory	50,114
Capital assets, not being depreciated:	
Land	854,415
Work in progress	319,969
Capital assets, net of accumulated depreciation:	
Buildings and improvements	12,310,700
Other capital assets	654,347
Total assets	<u>20,567,928</u>

Liabilities:

Accounts payable	225,024
Other accrued expenses	491,782
Unearned revenue - local grants and fees	15,335
Long-term liabilities:	
Due within one year:	700,000
Due in more than one year	10,869,449
Total liabilities	<u>12,301,590</u>

Deferred inflows of resources:

Unavailable revenue - property taxes	<u>3,243,402</u>
--------------------------------------	-------------------------

Net position:

Net investment in capital assets	5,179,887
Restricted for:	
Instruction	5,518
Food service	102,645
Food service - inventory	50,114
Unrestricted	(315,228)
Total net position	<u>\$ 5,022,936</u>

The accompanying notes are an integral part of the financial statements.

MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES
For The Fiscal Year Then Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular education	\$ 7,478,850	\$ -	\$ 820,450	\$ -	\$ (6,658,400)
Alternate education	221,249	-	1,082	-	(220,167)
Special education	1,470,793	-	460,485	-	(1,010,308)
Vocational education	519,697	-	18,796	-	(500,901)
Adult education	4,600	-	216	-	(4,384)
Support services:					
Attendance	102,391	-	-	-	(102,391)
Health services	168,637	-	-	-	(168,637)
Other student support	744,959	-	196,397	-	(548,562)
Regular education	1,321,753	-	411,302	-	(910,451)
Alternative instruction	18,292	-	-	-	(18,292)
Special education	191,505	-	72,365	-	(119,140)
Vocational education	48,448	-	10,542	-	(37,906)
Board of Education	365,920	-	7,525	-	(358,395)
Office of the Director	231,970	-	1,082	-	(230,888)
Office of the Principal	1,137,110	-	4,329	-	(1,132,781)
Fiscal services	174,558	-	-	-	(174,558)
Human services/personnel	97,539	-	-	-	(97,539)
Operation and maintenance of plant	1,751,898	-	-	-	(1,751,898)
Student transportation	473,861	-	-	-	(473,861)
Non-instructional services:					
Food service	1,197,637	233,667	947,022	-	(16,948)
Community services	-	325	16,458	-	16,783
Early Childhood Education	509,546	-	509,546	-	-
Capital outlay	242,373	-	12,816	-	(229,557)
Debt service	375,605	-	-	-	(375,605)
	<u>\$ 18,849,191</u>	<u>\$ 233,992</u>	<u>\$ 3,490,413</u>	<u>\$ -</u>	<u>\$ (15,124,786)</u>

The accompanying notes are an integral part of the financial statements.

MILAN SPECIAL SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year Then Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General revenues:					
	Property taxes				\$ 3,352,060
	Sales taxes				1,293,353
	Mixed drink tax				282
	Grants and contributions not restricted to certain programs				
	Basic Education Program				10,363,000
	City appropriation				238,306
	Other				1,050
	Interest				2,006
	Other miscellaneous revenues				14,317
	Total general revenues				<u>15,264,374</u>
	Change in net position				139,588
	Net position, beginning				5,024,746
	Prior period adjustment				<u>(141,398)</u>
	Net assets, beginning - restated				<u>4,883,348</u>
	Net position, ending				<u>\$ 5,022,936</u>

The accompanying notes are an integral part of the financial statements.

FUND FINANCIAL STATEMENTS

**MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2014**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 2,386,720	\$ 97,733	\$ 2,484,453
Accounts Receivable	8,108	1,630	9,738
Taxes receivable	3,243,402	-	3,243,402
Due from other governments - non grants	247,451	-	247,451
Due from other governments - grants	229,160	164,179	393,339
Due from other funds	141,622	-	141,622
Inventory	-	50,114	50,114
Total assets	\$ 6,256,463	\$ 313,656	\$ 6,570,119
Liabilities, Deferred Inflows of Resources and Fund Balances:			
Liabilities:			
Accounts payable	\$ 224,814	\$ 210	\$ 225,024
Accrued expenses	415,776	-	415,776
Due to other funds	-	141,622	141,622
Unearned revenue - local grants and fees	15,335	-	15,335
Total liabilities	655,925	141,832	797,757
Deferred inflows of resources:			
Unavailable revenue - grants	16,458	-	16,458
Unavailable revenue - property taxes	3,243,402	-	3,243,402
Total deferred inflows of resources	3,259,860	-	3,259,860
Fund balances:			
Nonspendable			
Inventory	-	50,114	50,114
Restricted			
Instruction	5,518	-	5,518
Operation of non-instructional services	-	102,645	102,645
Assigned			
Construction	629,030	19,065	648,095
Other purposes	290,201	-	290,201
Unassigned	1,415,929	-	1,415,929
Total fund balances	2,340,678	171,824	2,512,502
Total liabilities, deferred inflows of resources and fund balances	\$ 6,256,463	\$ 313,656	\$ 6,570,119

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2014**

Amounts reported for the governmental activities in the statement of net position (Page 13) are different because:

Fund balance - total governmental funds (Page 16)	\$ 2,512,502
Capital assets used in governmental funds are not financial resources and, therefore, are not reported as assets in governmental funds.	14,139,431
Receivables not available to pay for current expenditures and, therefore, are unavailable in funds.	16,458
Some payables are not due and payable in the current period and, therefore, are not reported in the funds: Accrued interest	 (76,006)
Long-term liabilities are not due in the current period and therefore are not reported in the funds: Bonds payable, notes payable, and leases payable OPEB Accrued leave Bond premium	 (8,950,000) (2,463,452) (146,453) <u>(9,544)</u>
Net position of governmental activities (Page 13)	<u>\$ 5,022,936</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For The Fiscal Year Then Ended June 30, 2014**

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 4,645,413	\$ -	\$ 4,645,413
Intergovernmental	11,515,487	2,548,270	14,063,757
Meal sales	-	233,667	233,667
Interest earnings	1,917	2,538	4,455
Other local revenues	93,952	21	93,973
Miscellaneous	12,437	-	12,437
Total revenues	<u>16,269,206</u>	<u>2,784,496</u>	<u>19,053,702</u>
Expenditures:			
Instruction	8,539,720	861,628	9,401,348
Support services	5,848,006	681,787	6,529,793
Food service	-	1,187,995	1,187,995
Non-instructional services	2,144,128	-	2,144,128
Total expenditures	<u>16,531,854</u>	<u>2,731,410</u>	<u>19,263,264</u>
Net change in fund balance	(262,648)	53,086	(209,562)
Fund balance - beginning	2,603,326	117,703	2,721,029
Increase (decrease) in inventory	<u>-</u>	<u>1,035</u>	<u>1,035</u>
Fund balance - ending	<u>\$ 2,340,678</u>	<u>\$ 171,824</u>	<u>\$ 2,512,502</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Fiscal Year Then Ended June 30, 2014**

Amounts reported for the governmental activities in the statement of activities (Pages 14 and 15) are different because:

Net change in fund balance - total governmental funds (Page 18)	\$	(209,562)
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Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital outlays and disposal of assets		534,999
Depreciation		(653,451)

The change in accrued leave is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.		(12,973)
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The change in OPEB is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities.		(292,544)
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The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, these repayments have no effect on net assets.		830,000
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Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.		6,054
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The change in inventory is an expenditure in the governmental funds, but the change reduces or increases the net position on the statement of activities.		1,035
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Revenues in the statement of activities that do not provide current financial resources are not reported as current revenue in the funds.		(64,925)
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Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment.		955
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Change in net position of governmental activities (Page 15)	\$	<u>139,588</u>
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The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Revenues:				
Taxes:				
Local option sales tax	\$ 1,172,000	\$ 1,172,000	\$ 1,292,185	\$ 120,185
Interstate telecommunications tax	2,000	2,000	1,168	(832)
	<u>1,174,000</u>	<u>1,174,000</u>	<u>1,293,353</u>	<u>119,353</u>
 City/Special School District:				
Current property tax	3,057,000	3,057,000	3,088,318	31,318
Prior year's property tax	125,000	125,000	133,956	8,956
Interest and penalty	19,000	19,000	17,740	(1,260)
Payment in lieu of taxes	98,045	98,045	112,046	14,001
	<u>3,299,045</u>	<u>3,299,045</u>	<u>3,352,060</u>	<u>53,015</u>
 Total taxes	<u>4,473,045</u>	<u>4,473,045</u>	<u>4,645,413</u>	<u>172,368</u>
 Intergovernmental:				
Licenses and Permits:				
Marriage licenses	900	900	785	(115)
 City General Fund:				
Budget and appropriations	<u>238,306</u>	<u>238,306</u>	<u>238,306</u>	<u>-</u>
 State revenues:				
State education funds:				
Basic Education Program	10,348,000	10,347,000	10,363,000	16,000
Early Childhood Education	509,545	509,545	509,546	1
Energy Efficient School Initiative	-	10,000	7,525	(2,475)
Driver education	3,000	3,000	9,640	6,640
Other state education funds	98,700	256,130	271,567	15,437
Career Ladder	81,220	81,220	76,941	(4,279)
Career Ladder - Extended Contract	24,375	24,375	25,645	1,270
Special education	-	-	12,250	12,250
	<u>11,064,840</u>	<u>11,231,270</u>	<u>11,276,114</u>	<u>44,844</u>
 Other State revenues:				
Mixed drink tax	100	100	282	182
 Total State revenues	<u>11,064,940</u>	<u>11,231,370</u>	<u>11,276,396</u>	<u>45,026</u>
 Total intergovernmental	<u>11,304,146</u>	<u>11,470,576</u>	<u>11,515,487</u>	<u>44,911</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Other local revenues:				
Interest earned	\$ 5,000	\$ 5,000	\$ 1,917	\$ (3,083)
Lease/rentals	500	500	325	(175)
Miscellaneous revenues	500	500	2,263	1,763
Contributions	5,000	5,000	1,050	(3,950)
Other local revenues	<u>5,000</u>	<u>16,635</u>	<u>8,799</u>	<u>(7,836)</u>
	<u>16,000</u>	<u>27,635</u>	<u>14,354</u>	<u>(13,281)</u>
Total miscellaneous	<u>16,000</u>	<u>27,635</u>	<u>14,354</u>	<u>(13,281)</u>
Total revenues	<u>15,793,191</u>	<u>15,971,256</u>	<u>16,175,254</u>	<u>203,998</u>

Expenditures:

Instruction:

Regular instruction program:

Teachers	4,782,678	4,614,113	4,579,028	(35,085)
Career Ladder Program	42,600	48,100	48,100	-
Career Ladder - Extended Contract	15,680	19,763	19,763	-
Homebound teachers	3,100	3,100	1,888	(1,212)
Aides	124,548	121,848	91,725	(30,123)
Other Salaries and wages	70,892	165,576	163,567	(2,009)
Substitute teachers	20,000	20,000	19,907	(93)
Non-certified substitute teachers	65,000	56,300	54,220	(2,080)
Social Security	323,114	289,088	279,871	(9,217)
State retirement	439,875	426,316	423,473	(2,843)
Medical insurance	603,269	482,913	484,439	1,526
Medicare	75,415	67,951	66,060	(1,891)
Licenses	-	12,000	-	(12,000)
Tuition	-	4,100	3,306	(794)
Other contracted services	34,500	40,000	39,995	(5)
Instructional supplies/materials	135,000	128,522	127,813	(709)
Textbooks	125,000	44,900	23,721	(21,179)
Other supplies and materials	-	500	353	(147)
Other charges	3,500	4,500	2,967	(1,533)
Equipment	<u>100,000</u>	<u>266,786</u>	<u>272,933</u>	<u>6,147</u>
	<u>6,964,171</u>	<u>6,816,376</u>	<u>6,703,129</u>	<u>(113,247)</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Alternate instruction program:				
Teachers	\$ 143,100	\$ 130,450	\$ 127,857	\$ (2,593)
Career Ladder	1,000	1,000	1,000	-
Educational assistants	33,000	31,000	29,353	(1,647)
Other salaries and wages	-	18,350	18,350	-
Certified substitute teachers	-	120	-	(120)
Non-certified substitute teachers	2,000	1,555	1,048	(507)
Social Security	9,244	9,244	8,085	(1,159)
State retirement	10,309	10,309	10,068	(241)
Medical insurance	13,297	21,997	21,278	(719)
Medicare	2,118	2,118	2,279	161
Instructional supplies/materials	1,500	425	385	(40)
Inservice/staff development	2,000	-	-	-
	<u>217,568</u>	<u>226,568</u>	<u>219,703</u>	<u>(6,865)</u>
Special education program:				
Teachers	667,681	668,381	668,242	(139)
Career Ladder	8,000	6,000	6,000	-
Homebound teachers	3,500	3,500	2,013	(1,487)
Aides	46,436	45,236	45,201	(35)
Speech pathologist	62,938	62,838	61,394	(1,444)
Substitute teachers	4,000	3,700	1,830	(1,870)
Non-certified substitute teachers	15,000	11,400	11,105	(295)
Social Security	50,068	45,368	44,084	(1,284)
State retirement	64,165	66,965	66,767	(198)
Medical insurance	76,351	79,652	79,968	316
Medicare	11,710	11,109	10,309	(800)
Contracts with other school systems	16,885	16,885	16,885	-
Instructional supplies/materials	400	3,100	3,003	(97)
	<u>1,027,134</u>	<u>1,024,134</u>	<u>1,016,801</u>	<u>(7,333)</u>
Vocational education program:				
Teachers	348,000	360,867	360,234	(633)
Career Ladder	2,000	1,800	1,800	-
Aides	24,315	-	-	-
Substitute teachers	4,000	2,800	1,890	(910)
Non-certified substitute teachers	7,000	5,300	4,205	(1,095)
Social Security	24,277	21,380	19,638	(1,742)

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
State retirement	\$ 32,200	\$ 30,177	\$ 29,405	\$ (772)
Medical insurance	31,000	31,595	31,255	(340)
Medicare	5,679	5,329	5,041	(288)
Laundry service	-	400	286	(114)
Licenses	-	750	750	-
Maintenance and repair	1,000	1,000	275	(725)
Instructional supplies	25,400	25,400	25,369	(31)
Other supplies and materials	-	500	99	(401)
Other charges	5,000	2,450	-	(2,450)
Furniture, fixtures and equipment	30,000	21,300	21,288	(12)
	<u>539,871</u>	<u>511,048</u>	<u>501,535</u>	<u>(9,513)</u>
Adult education program:				
Other contracted services	<u>4,000</u>	<u>4,600</u>	<u>4,600</u>	<u>-</u>
Total instruction	<u>8,752,744</u>	<u>8,582,726</u>	<u>8,445,768</u>	<u>(136,958)</u>
Support Services:				
Attendance:				
Director	70,700	14,700	14,347	(353)
Career Ladder	1,000	200	200	-
Social workers	43,094	43,094	43,094	-
Other salaries and wages	44,300	17,700	15,606	(2,094)
Social Security	9,900	6,360	2,729	(3,631)
State retirement	14,150	9,080	5,119	(3,961)
Medical insurance	20,602	15,150	9,889	(5,261)
Medicare	2,400	1,565	863	(702)
Licenses	-	5,450	5,426	(24)
Printing and postage	-	300	51	(249)
Maintenance and repair - equipment	200	200	-	(200)
Travel	1,000	1,000	717	(283)
Other supplies and materials	6,000	550	401	(149)
In-service/staff development	3,000	3,000	1,186	(1,814)
Other charges	1,000	700	564	(136)
Equipment	<u>2,000</u>	<u>4,000</u>	<u>2,199</u>	<u>(1,801)</u>
	<u>219,346</u>	<u>123,049</u>	<u>102,391</u>	<u>(20,658)</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Health Services:				
Supervisor/director	\$ 44,077	\$ 44,077	\$ 44,077	\$ -
Medical personnel	64,148	64,148	60,468	(3,680)
Other salaries and wages	18,260	19,060	18,604	(456)
Social Security	7,377	7,877	6,743	(1,134)
State retirement	8,828	8,828	5,678	(3,150)
Medical insurance	19,466	21,366	19,537	(1,829)
Medicare	1,930	1,930	1,577	(353)
Postage	200	200	194	(6)
Printing, stationery and forms	200	200	184	(16)
Travel	3,700	3,700	3,768	68
Other contracted services	300	3,240	2,856	(384)
Drugs and medical supplies	1,500	1,500	1,230	(270)
Other supplies/materials	1,500	1,500	1,757	257
In-service/staff development	1,100	1,700	1,036	(664)
Other charges	1,000	1,000	198	(802)
Health equipment	750	750	730	(20)
	<u>174,336</u>	<u>181,076</u>	<u>168,637</u>	<u>(12,439)</u>
Other student support:				
Supervisor/director	-	42,775	42,693	(82)
Career Ladder	3,800	5,000	5,000	-
Guidance personnel	334,210	384,210	380,644	(3,566)
Salary supplements	-	2,500	2,500	-
Social Security	16,755	22,310	19,914	(2,396)
State retirement	23,998	33,698	30,785	(2,913)
Medical insurance	26,397	29,086	26,483	(2,603)
Medicare	4,950	6,525	5,867	(658)
Evaluation/testing	28,000	23,000	24,994	1,994
Printing, stationery and forms	-	500	313	(187)
Travel	500	1,100	786	(314)
Other contracted services	-	3,500	1,800	(1,700)
Instructional supplies/materials	1,000	3,899	3,858	(41)
Other supplies and materials	-	1,000	383	(617)
In-service/staff development	3,500	6,332	5,458	(874)
Other charges	1,500	4,000	2,495	(1,505)
	<u>444,610</u>	<u>569,435</u>	<u>553,973</u>	<u>(15,462)</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Regular education program:				
Director	\$ 220,300	\$ 179,008	\$ 173,412	\$ (5,596)
Career Ladder	5,000	4,000	4,000	-
Career Ladder - Extended Contract	5,320	5,320	5,320	-
Librarian(s)	182,025	182,025	181,008	(1,017)
Instructional computer personnel	37,392	37,912	37,904	(8)
Salary supplements	-	6,745	6,600	(145)
Clerical personnel	-	32,710	32,688	(22)
Aides	32,060	47,060	46,639	(421)
Bonus payment	-	5,000	5,000	-
Other salaries and wages	45,620	56,217	50,124	(6,093)
Social Security	32,718	35,365	30,402	(4,963)
State retirement	40,642	42,805	41,218	(1,587)
Medical insurance	37,898	131,810	134,656	2,846
Medicare	7,298	7,917	7,113	(804)
Payments to retirees	-	43,438	43,316	(122)
Advertising	-	2,200	382	(1,818)
Dues and memberships	-	120	60	(60)
Evaluation and testing	-	15,960	15,960	-
Licenses	-	2,244	-	(2,244)
Postal charges	-	900	-	(900)
Printing, stationery and forms	-	2,379	248	(2,131)
Travel	2,000	500	214	(286)
Other contracted services	-	40,700	38,111	(2,589)
Library books	18,200	18,200	18,200	-
Office supplies	-	1,775	140	(1,635)
Other supplies and materials	-	876	-	(876)
In-service/staff development	25,500	26,719	25,455	(1,264)
Other charges	-	10,620	5,293	(5,327)
Other equipment	-	5,960	756	(5,204)
	<u>691,973</u>	<u>946,485</u>	<u>904,219</u>	<u>(42,266)</u>
Alternative instruction program:				
Director	-	14,260	14,094	(166)
Career ladder program	-	200	200	-
Social Security	-	885	856	(29)
State retirement	-	1,270	1,259	(11)
Medical insurance	-	1,400	1,341	(59)
Medicare	-	210	202	(8)

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Dues and memberships	\$ -	\$ 300	\$ 300	\$ -
Printing, stationary and forms	-	100	-	(100)
Other supplies and materials	-	50	-	(50)
Inservice/staff development	-	1,550	-	(1,550)
Office supplies	-	200	40	(160)
	<u>-</u>	<u>20,425</u>	<u>18,292</u>	<u>(2,133)</u>
Special education program:				
Director	34,475	34,475	32,781	(1,694)
Social Security	2,137	2,137	1,770	(367)
State retirement	3,061	3,061	2,911	(150)
Medical insurance	8,657	4,257	3,700	(557)
Medicare	500	500	414	(86)
Dues and memberships	-	250	250	-
Evaluation and testing	-	860	857	(3)
Travel	500	300	178	(122)
Other contracted services	72,000	75,640	75,355	(285)
In-service/staff development	1,500	900	242	(658)
Other supplies/materials	250	700	682	(18)
	<u>123,080</u>	<u>123,080</u>	<u>119,140</u>	<u>(3,940)</u>
Vocational education program:				
Director	10,000	10,000	9,996	(4)
Clerical personnel	-	24,315	24,125	(190)
Social security	639	2,136	1,879	(257)
State retirement	915	1,738	1,710	(28)
Medical insurance	-	6,071	5,914	(157)
Medicare	149	499	440	(59)
Postal charges	-	250	222	(28)
Travel	3,000	2,650	-	(2,650)
Other supplies/materials	200	600	300	(300)
In-service/staff development	1,500	1,500	782	(718)
Other charges	500	500	-	(500)
Other equipment	-	-	2,178	2,178
	<u>16,903</u>	<u>50,259</u>	<u>47,546</u>	<u>(2,713)</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Board of Education services:				
Secretary to Board	\$ 1,434	\$ 1,434	\$ 1,434	\$ -
Social Security	89	89	72	(17)
State retirement	49	49	49	-
Unemployment compensation	27,000	27,000	23,438	(3,562)
Medicare	21	21	17	(4)
Other fringe benefits	52,000	48,706	44,353	(4,353)
Audit services	32,880	32,880	31,205	(1,675)
Dues and memberships	8,000	4,500	4,371	(129)
Legal services	17,000	18,200	16,990	(1,210)
Other contracted services	1,000	2,000	2,000	-
Food supplies	-	3,300	2,946	(354)
Other supplies and materials	-	30	28	(2)
Liability insurance	18,537	27,807	27,806	(1)
Premium on surety bond	2,100	2,189	2,189	-
Trustee commissions	90,000	90,000	77,649	(12,351)
Workmen's compensation insurance	107,017	114,717	114,690	(27)
In-service/staff development	7,500	9,000	8,461	(539)
Other charges	25,700	10,000	8,222	(1,778)
	<u>390,327</u>	<u>391,922</u>	<u>365,920</u>	<u>(26,002)</u>
Office of the Director of Schools:				
County official/administrative officer	126,387	126,387	124,641	(1,746)
Career Ladder	1,000	1,000	1,000	-
Secretary(ies)	35,394	35,394	31,595	(3,799)
Clerical personnel	32,710	-	-	-
Other salaries and wages	5,000	-	-	-
Social Security	12,120	10,130	8,677	(1,453)
State retirement	14,427	13,087	12,270	(817)
Medical insurance	11,000	11,900	11,951	51
Medicare	2,835	2,370	2,065	(305)
Advertising	-	2,500	1,630	(870)
Communication	5,000	5,400	4,999	(401)
Dues and memberships	3,000	3,000	210	(2,790)
Operating lease payments	-	13,000	13,828	828
Maintenance and repair	-	400	75	(325)
Postal charges	2,000	2,000	1,652	(348)

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Printing, stationery and forms	\$ -	\$ 800	\$ 451	\$ (349)
Travel	2,500	2,500	1,088	(1,412)
Other contracted services	12,000	100	69	(31)
Food supplies	-	1,500	1,128	(372)
Office supplies	7,000	4,000	3,090	(910)
In-service/staff development	10,000	10,000	5,582	(4,418)
Other charges	4,000	2,900	2,228	(672)
Equipment	6,500	5,500	3,741	(1,759)
	<u>292,873</u>	<u>253,868</u>	<u>231,970</u>	<u>(21,898)</u>
Office of the Principal:				
Principals	251,190	254,690	254,634	(56)
Career Ladder	4,000	4,000	4,000	-
Assistant(s)	382,325	387,475	387,403	(72)
Secretary(ies)	246,000	245,000	245,871	871
Other salaries and wages	10,000	-	-	-
Bonus payments	-	11,700	9,000	(2,700)
Social Security	54,858	52,058	51,245	(813)
State retirement	65,103	66,703	66,173	(530)
Medical insurance	89,953	88,587	75,731	(12,856)
Medicare	12,789	12,489	11,985	(504)
Advertising	-	2,500	1,272	(1,228)
Communication	12,000	11,300	9,784	(1,516)
Dues and memberships	3,000	3,000	894	(2,106)
Postal charges	5,000	5,000	5,000	-
Printing, stationery and forms	-	200	199	(1)
Travel	1,500	1,500	1,954	454
Other contracted services	2,070	20	-	(20)
Office supplies	2,000	2,000	2,000	-
In-service/staff development	10,500	10,500	6,415	(4,085)
Other charges	-	5,000	-	(5,000)
Administration equipment	-	2,050	2,044	(6)
	<u>1,152,288</u>	<u>1,165,772</u>	<u>1,135,604</u>	<u>(30,168)</u>
Fiscal services:				
Director	37,392	57,692	57,668	(24)
Accountants/bookkeepers	45,020	45,020	44,763	(257)
Bonus payments	-	500	500	-

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Other salaries & wages	\$ 24,000	\$ 27,020	\$ 24,894	\$ (2,126)
Social Security	6,587	7,007	6,835	(172)
State retirement	5,695	5,475	5,384	(91)
Medical insurance	20,835	18,135	18,093	(42)
Medicare	1,540	1,640	1,599	(41)
Dues and memberships	-	40	-	(40)
Licenses	-	11,192	11,191	(1)
Printing, stationery and forms	-	940	777	(163)
Other contracted services	9,200	-	-	-
Office supplies	2,000	1,000	369	(631)
In-service/staff development	1,000	1,920	1,887	(33)
Equipment	2,000	608	598	(10)
	<u>155,269</u>	<u>178,189</u>	<u>174,558</u>	<u>(3,631)</u>
Human services/personnel:				
Supervisor/director	32,700	33,500	33,471	(29)
Clerical personnel	34,050	34,300	33,981	(319)
Bonus payments	-	1,000	780	(220)
Social security	4,166	3,786	3,718	(68)
State retirement	4,107	4,257	4,194	(63)
Medical insurance	8,405	9,611	9,061	(550)
Medicare	974	974	870	(104)
Advertising	-	1,340	1,333	(7)
Dues and memberships	500	500	75	(425)
Evaluation and testing	-	450	450	-
Licenses	-	6,176	6,054	(122)
Maintenance and repair services	-	67	-	(67)
Postal charges	100	100	-	(100)
Travel	1,200	575	401	(174)
Other contracted services	2,000	-	-	-
Food supplies	-	50	-	(50)
Office supplies	600	200	166	(34)
Periodicals	-	966	966	-
Other supplies and materials	-	907	1,152	245
In-service/staff development	1,800	1,295	811	(484)
Other charges	5,000	474	56	(418)
Equipment	2,000	(2,600)	-	2,600
	<u>97,602</u>	<u>97,928</u>	<u>97,539</u>	<u>(389)</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Operation and maintenance of plant:				
Operation of plant:				
Janitorial services	\$ 375,000	\$ 337,900	\$ 337,525	\$ (375)
Disposal fees	-	35,000	35,022	22
Custodial supplies	500	500	-	(500)
Electricity	400,000	384,400	378,413	(5,987)
Natural gas	70,000	80,700	79,973	(727)
Water and sewer	38,000	45,000	44,716	(284)
Boiler insurance	4,563	4,563	4,563	-
Building and contents insurance	83,131	83,131	83,131	-
	<u>971,194</u>	<u>971,194</u>	<u>963,343</u>	<u>(7,851)</u>
Maintenance of plant:				
Director	47,000	47,206	47,206	-
Maintenance personnel	69,500	69,720	69,716	(4)
Bonus payments	-	400	400	-
Other salaries and wages	10,500	9,600	6,867	(2,733)
Social Security	7,207	7,382	7,379	(3)
State retirement	4,032	4,532	4,379	(153)
Medical insurance	8,866	8,866	8,781	(85)
Medicare	1,685	1,785	1,726	(59)
Advertising	-	400	211	(189)
Communication	1,500	1,500	1,096	(404)
Consultants	-	10,000	7,525	(2,475)
Maintenance and repair - buildings	50,000	50,000	51,378	1,378
Maintenance and repair - equipment	25,000	25,000	30,735	5,735
Pest control	-	1,050	1,080	30
Other contracted services	59,000	52,000	45,879	(6,121)
Other supplies and materials	41,300	36,195	37,195	1,000
In-service/staff development	1,000	500	150	(350)
Other equipment	-	3,055	3,053	(2)
	<u>326,590</u>	<u>329,191</u>	<u>324,756</u>	<u>(4,435)</u>
Total operation and maintenance of plant	<u>1,297,784</u>	<u>1,300,385</u>	<u>1,288,099</u>	<u>(12,286)</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Student transportation:				
Director	\$ 33,193	\$ 33,773	\$ 33,771	\$ (2)
Bus drivers	135,198	134,098	128,732	(5,366)
Clerical personnel	4,207	4,217	4,207	(10)
Bonus payments	-	1,500	1,500	-
Other salaries and wages	85,880	87,080	76,582	(10,498)
Social Security	16,026	16,026	14,707	(1,319)
State retirement	9,900	9,900	8,006	(1,894)
Medical insurance	2,250	4,850	4,728	(122)
Medicare	3,748	3,748	3,435	(313)
Advertising	-	100	96	(4)
Communication	1,000	1,000	687	(313)
Contracts with other school systems	-	55,700	58,691	2,991
Contracts with public carriers	12,565	-	-	-
Contracts with vehicle owners	-	8,500	4,855	(3,645)
License	-	100	53	(47)
Maintenance and repair - equipment	-	1,300	686	(614)
Maintenance and repair - vehicle	-	2,200	1,032	(1,168)
Medical and dental services	-	1,200	1,200	-
Printing, stationary and forms	-	200	97	(103)
Travel	500	300	106	(194)
Other contracted services	56,000	1,000	889	(111)
Diesel fuel	70,000	70,000	56,655	(13,345)
Food supplies	-	350	406	56
Gasoline	7,000	7,900	7,356	(544)
Other supplies and materials	2,165	2,165	1,104	(1,061)
Vehicle and equipment insurance	30,000	25,666	25,666	-
In-service/staff development	2,000	2,000	1,443	(557)
Other charges	3,500	610	102	(508)
Transportation equipment	-	200,350	203,326	2,976
	<u>475,132</u>	<u>675,833</u>	<u>640,118</u>	<u>(35,715)</u>
Total support services	<u>5,531,523</u>	<u>6,077,706</u>	<u>5,848,006</u>	<u>(229,700)</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Non-Instructional Services:				
Early Childhood Education				
Supervisor/director	\$ 11,100	\$ 11,400	\$ 11,331	\$ (69)
Teachers	198,000	194,100	193,479	(621)
Clerical personnel	13,100	13,100	12,432	(668)
Educational assistants	162,000	155,100	152,155	(2,945)
Substitute teachers	300	300	-	(300)
Non-certified substitute teachers	1,000	1,000	963	(37)
Social Security	24,500	20,800	20,343	(457)
State retirement	25,500	23,200	22,968	(232)
Medical insurance	35,000	40,500	40,487	(13)
Medicare	5,700	5,100	4,758	(342)
Advertising	-	483	482	(1)
Dues and memberships	-	180	179	(1)
Travel	1,200	400	349	(51)
Other contracted services	13,100	14,437	12,027	(2,410)
Food supplies	-	815	815	-
Instructional supplies and materials	10,746	15,000	17,569	2,569
Other supplies and materials	-	3,531	3,312	(219)
In-service/staff development	2,500	600	600	-
Other charges	1,300	800	673	(127)
Other equipment	4,500	8,700	14,624	5,924
	<u>509,546</u>	<u>509,546</u>	<u>509,546</u>	<u>-</u>
Capital outlay:				
Other construction	-	1,000,000	370,970	(629,030)
Other capital outlay	35,000	60,000	50,999	(9,001)
	<u>35,000</u>	<u>1,060,000</u>	<u>421,969</u>	<u>(638,031)</u>
Debt service:				
Principal on bonds	830,000	830,000	830,000	-
Interest on bonds	381,513	381,513	381,513	-
Other debt service	1,100	1,100	1,100	-
	<u>1,212,613</u>	<u>1,212,613</u>	<u>1,212,613</u>	<u>-</u>
Total non-instructional services	<u>1,757,159</u>	<u>2,782,159</u>	<u>2,144,128</u>	<u>(638,031)</u>
Total expenditures	<u>16,041,426</u>	<u>17,442,591</u>	<u>16,437,902</u>	<u>(1,004,689)</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
GENERAL PURPOSE FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Net changes in fund balance	<u>\$ (248,235)</u>	<u>\$ (1,471,335)</u>	<u>\$ (262,648)</u>	<u>\$ 1,208,687</u>
Fund balance - beginning			<u>2,603,326</u>	
Fund balance - ending			<u>\$ 2,340,678</u>	
Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures				
Inflows/revenues:				
Actual amounts (budgetary basis)			\$ 16,175,254	\$ 203,998
Differences - budget to GAAP:				
Fringe benefits - noncash			<u>93,952</u>	<u>93,952</u>
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds			<u>16,269,206</u>	<u>297,950</u>
Outflows/expenditures:				
Actual amounts (budgetary basis)			16,437,902	(1,004,689)
Differences - budget to GAAP:				
Fringe benefits - noncash			<u>93,952</u>	<u>93,952</u>
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds			<u>16,531,854</u>	<u>(910,737)</u>
Net changes in fund balance			<u>\$ (262,648)</u>	<u>\$ 1,208,687</u>

The accompanying notes are an integral part of the financial statements.

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Milan Special School District (the District) was created by an act to amend Chapter 504 of the Private Acts of 1945 as amended by Chapter 82 of the Private Acts of 1981. This act was passed by the General Assembly of the State of Tennessee on July 23, 1981. The purpose of the Milan Special School District is to operate and administer the City of Milan's public schools.

The seven-member school board, which is the governing authority, is elected by the public, approves its own budgets and controls surpluses and deficits, has the authority to issue debt and to levy taxes, and has control over hiring and firing employees.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for governmental units as promulgated by Governmental Accounting Standards Board (GASB). As required by GAAP, these financial statements present all funds, which comprise the District. These financial statements present the District as "The Primary Government" and there are no component units or entities for which the District is considered financially accountable, which should be included.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The general purpose fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Position or Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition. State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Investments for the District are reported at fair value. The State Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds".

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied and billed on October 1. The payment due dates are October 1 through February 28 and become

MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

delinquent on March 1. The property taxes are collected by the Trustee of Gibson County and remitted to the District. District property tax revenues are recognized in the period for which they were levied.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund type revenues represented by non-current receivables is deferred in the governmental fund statements until they become current receivables.

For the purpose of operating and maintaining the District, the private act creating the District authorized an annual property tax on every one hundred (\$100) assessment of real and personal property located within the District. The current property tax is \$1.84 on every \$100 of real and personal property located within the District.

Inventories

Inventories are valued at lower of average cost or market, using the first-in/first-out (FIFO) method. The Cafeteria Fund maintains an inventory consisting of food supplies using the purchases method and expenses inventory when purchased throughout the year. At year-end, the actual cost of the items in inventory is used to capitalize the inventory, with a corresponding entry to nonspendable fund balance in the Cafeteria Fund. For the government-wide statements, inventory is converted to the consumption method.

Capital Assets

Capital assets, which include land, buildings and improvements, and other capital assets, are reported in the applicable district-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 (amount not rounded) or more and an estimated useful life in excess of two years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following useful lives:

Buildings and improvements	20 – 50 years
Other capital assets	4 – 20 years

Unearned Revenue

Unearned revenue includes resources that have been received, but not yet earned.

On Behalf Payments for Fringe Benefits

The District records on-behalf payments made by the State of Tennessee to be used for postemployment health insurance benefits for employees not yet eligible for Medicare. Such payments are recorded as intergovernmental revenue and instruction expenses/expenditures in the GAAP basis district-wide and general fund financial statements, but are not budgeted and, therefore, are not included in the general purpose fund budgetary basis financial statements.

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Compensated Absences

Vacation Leave – All support personnel who are employed 12 months per year earn one day of vacation for each twenty days of employment and all support personnel employed for 10 or 11 months shall earn one day of vacation for each twenty days of employment. The maximum that any employee could accumulate would be 24 days. Therefore, in the event that an employee leaves employment, they will be paid only for a maximum of the 24 days. This policy was enacted in the year ended June 30, 2002. At the time of implementation, some employees had accumulated greater than the maximum allowed by the policy. These employees were given a 24-month grace period in which to use the accumulated days.

Sick Leave – All support personnel and certified employees earn one day of sick leave for each month of employment. Sick leave days may be accumulated to an unlimited number. At the time employment is terminated, all unused sick leave that has accumulated shall be used for retirement service credit.

Long-term Liabilities

In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period paid.

In the fund financial statements, the governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District recognizes unavailable revenues - property taxes as deferred inflows of resources as of June 30, 2014.

Impact of Recently Issued Accounting Pronouncements

In March of 2012, the GASB issued statement no. 65 – *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for financial periods beginning after December 15, 2012. The implementation of GASB 65 has resulted in the classification of unavailable revenue – property taxes and unavailable revenue to deferred inflows of resources as compared to previously being reported as a liability. It also requires bond issuance costs to be expensed in the year bonds are

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obtained as compared to previously being reported as an asset and amortized over the life of the bonds. This has resulted in a prior period adjustment in the current year to remove bond issuance cost from the assets.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have on the District's financial statements.

Net position flow assumption

Sometimes the government will find outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Equity

The District has evaluated the use of its Capital Projects fund under the criteria set forth in GASB Statement 54 and has determined that there is no change needed.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable fund balance

This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

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Restricted fund balance

This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

Committed fund balance

This classification includes amounts that can only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the Board of Education of the Milan Special School District. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution).

Assigned fund balance

This classification includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designees (of which there are none) have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned fund balance

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

NOTE 2 – RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the District-wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the district-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds, notes payable and capital leases payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$8,950,000) are as follows:

School bonds payable, Series 2005	\$ (7,950,000)
School bonds payable, Series 2008	<u>(1,000,000)</u>
	<u>\$ (8,950,000)</u>

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Another element of that reconciliation explains that "capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds." The details of this \$14,139,431 are as follows:

Land	\$ 854,415
Work in progress	319,969
Buildings and improvements	21,426,811
Other capital assets	<u>2,192,822</u>
	24,794,017
Less accumulated depreciation	<u>(10,654,586)</u>
Net investment in capital assets	<u><u>\$ 14,139,431</u></u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the District-wide Statement of Activities

One element of that reconciliation states that "the repayment of the principal of long-term debt is expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position." The details of this \$830,000 are as follows:

Principal repayments:	
School bonds payable, Series 2005	\$ 380,000
School bonds payable, Series 2009	<u>450,000</u>
	<u><u>\$ 830,000</u></u>

Another element of that reconciliation states that "the change in accrued leave is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities." The details of this (\$12,973) are as follows:

Accrued leave as of June 30, 2013	\$ 133,480
Accrued leave as of June 30, 2014	<u>(146,453)</u>
	<u><u>\$ (12,973)</u></u>

Another element of that reconciliation states that "the change in OPEB is an expenditure in the governmental funds, but the change reduces or increases the liability on the statement of activities." The details of this (\$292,544) are as follows:

OPEB Liability as of June 30, 2013	\$ 2,170,908
OPEB Liability as of June 30, 2014	<u>(2,463,452)</u>
	<u><u>\$ (292,544)</u></u>

Another element of that reconciliation states that "interest is reported as an expenditure in the governmental funds, but it is accrued on outstanding debt on the statement of activities." The details of this \$6,054 are as follows:

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Accrued interest as of June 30, 2013	\$ 82,060
Accrued interest as of June 30, 2014	<u>(76,006)</u>
	<u>\$ 6,054</u>

Another element of that reconciliation states that "revenues in the statement of activities that do not provide current financial resources are not reported as current revenues in the funds." The details of this (\$64,925) are as follows:

Unavailable grant revenue as of June 30, 2013	\$ 16,458
Unavailable grant revenue as of June 30, 2014	<u>(81,383)</u>
	<u>\$ (64,925)</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for on-behalf revenues and expenses included in the general purpose fund. The District approves a budget for the education capital projects fund based on the project. It is not an annual budget and therefore no budget to actual comparative statement is presented for the education capital projects fund. The Board of Education approves and appropriates the budgets for these funds annually. All annual appropriations lapse at fiscal year end. Each budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

As an extension of the formal budgetary process, the Board of Education may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. The District's policy is to not allow expenditures to exceed budgetary amounts at the total function level without obtaining additional appropriation approval from the Board of Education. Line-item transfers within major categories are made upon recommendation of the Director of Schools and approval by the board. All funds expenditures were under budget with the exception of the cafeteria fund as noted on page 60 of the financials. The total expenditures exceeded the budget by \$3,595.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance, by the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of

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the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2014, all bank deposits were fully collateralized or insured.

GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, requires investments with a remaining maturity of one year or more to be reported at fair value. The District had no investments as of June 30, 2014.

The following is a summary of cash and cash equivalents as of June 30, 2014.

Cash in bank	\$2,097,288
Local Government Investment Pool	387,165
Total cash and cash equivalents	<u>\$2,484,453</u>

B. Receivables

Receivables as of the year end for the government's individual major funds and non-major funds in the aggregate are as follows:

	<u>General</u>	<u>Funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 8,108	\$ 1,630	\$ 9,738
Taxes	3,243,402	-	3,243,402
Grants	229,160	164,179	393,339
Intergovernmental	247,451	-	247,451
Total receivables	<u>\$3,728,121</u>	<u>\$ 165,809</u>	<u>\$3,893,930</u>

Amounts in the General Fund called "due from other governmental agencies" represent the normal amounts due from state and county governments for shared revenues and tax allocations.

Management determined that all receivables were collectable and no allowance was considered necessary.

Property tax is unavailable due to the 2014 tax levy not being due and payable until October 2014. Therefore, the funds are unavailable to the District as of June 30, 2014.

The following revenues are unavailable in the fund statements based on the district not receiving the funds within 60 days of year end.

	<u>Unavailable</u>
General Fund	
IDEA - High Cost Student	\$ 16,458
Property taxes	3,243,402
	<u>\$3,259,860</u>

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C. Interfund Receivables and Payables

The interfund payable from the federal projects fund to the general fund is for the negative cash balance in the pooled bank account at the end of the year.

The composition of balances as of June 30, 2014, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Purpose	Federal Projects	\$ 141,622
		141,622
Elimination for district-wide statements		(141,622)
		<u>\$ -</u>

D. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 854,415	\$ -	\$ -	\$ 854,415
Work in progress	24,194	295,775	-	319,969
	<u>878,609</u>	<u>295,775</u>	<u>-</u>	<u>1,174,384</u>
Capital assets being depreciated:				
Buildings and improvements	21,402,616	24,195	-	21,426,811
Other capital assets	1,977,793	215,029	-	2,192,822
	<u>23,380,409</u>	<u>239,224</u>	<u>-</u>	<u>23,619,633</u>
Accumulated depreciation:				
Buildings and improvements	(8,529,470)	(586,641)	-	(9,116,111)
Other capital assets	(1,471,665)	(66,810)	-	(1,538,475)
	<u>(10,001,135)</u>	<u>(653,451)</u>	<u>-</u>	<u>(10,654,586)</u>
Total capital assets, net	<u>\$ 14,257,883</u>	<u>\$ (118,452)</u>	<u>\$ -</u>	<u>\$ 14,139,431</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

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Instruction:

Regular education	\$ 1,546
Vocational education	1,314

Support services:

Office of the Principal	1,506
Operation and maintenance of plant	463,799
Student transportation	34,236

Non-instructional services:

Capital outlay	140,373
Food service	10,677
	<u>\$653,451</u>

E. Leases

Operating Leases

The District has entered into a two lease agreements as lessee for a copier on both agreements. These lease agreements qualify as operating leases for accounting purposes. The first lease is for a forty-eight month period with monthly payments of \$240. The second lease is for a sixty month period with monthly payments of \$2,225.

The future minimum lease payments as of June 30, 2014, were as follows:

Year Ended June 30,	
2015	\$ 29,580
2016	26,700
2017	11,125
	<u>\$ 67,405</u>

The lease expense for the year ended June 30, 2014 was \$29,580.

F. Long-term Debt

The annual requirements to amortize all long-term debt and obligations outstanding, excluding compensated absences and OPEB, as of June 30, 2014 are as follows:

Years Ending	Bonds		
June 30,	Principal	Interest	Total
2015	\$ 700,000	\$ 353,362	\$ 1,053,362
2016	745,000	327,213	1,072,213
2017	790,000	299,375	1,089,375
2018	830,000	269,500	1,099,500
2019	875,000	237,395	1,112,395
2020-2024	5,010,000	630,720	5,640,720
	<u>\$ 8,950,000</u>	<u>\$2,117,565</u>	<u>\$11,067,565</u>

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The following is a summary of long-term debt transactions for the year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable:					
School Bonds, Series 2005 3.50% to 4.10%					
interest, payable serially through 2024	\$ 8,330,000	\$ -	\$ 380,000	\$ 7,950,000	\$ 600,000
School Bonds, Series 2008 3.00% to 4.375%					
interest, payable serially through 2024	1,000,000	-	-	1,000,000	100,000
School Bonds, Series 2009 1.50% to 3.30%					
interest, payable serially through 2014	450,000	-	450,000	-	-
Bond premium	10,499	-	955	9,544	-
Total bonds payable	9,790,499	-	830,955	8,959,544	700,000
Other post employment benefits	2,170,908	292,544	-	2,463,452	-
Compensated absences	133,480	12,973	-	146,453	-
Total long-term liabilities	\$ 12,094,887	\$ 305,517	\$ 830,955	\$ 11,569,449	\$ 700,000

The General Fund is used to liquidate compensated absences.

The District issued school bonds for the purpose of providing funds for the acquisition and construction of a new school building. During the year ended June 30, 2005, additional school bonds were issued to refund a portion of the School Bonds, Series 2001. The principal not refunded totaled \$775,000.

During the year ended June 30, 2005, the District issued \$9,355,000 of school refunding bonds for the purpose of providing funds to refund a portion of the District's School Bonds, Series 2001, maturing April 1, 2006 through April 1, 2024, inclusive, and to pay costs of issuance on the bonds. The refunded bonds are considered defeased and the liability has been removed from the statement of net position except for the portion not refunded. The advance refunding was undertaken to reduce the total debt service payments over the next fifteen years by \$489,012 and resulted in a net present value benefit of \$356,518. At June 30, 2010, defeased bonds of \$9,065,000 were still outstanding.

These defeased bonds were retired April 1, 2011.

The District issued school bonds for the purpose of providing funds for the acquisition and construction of a new school building. During the year ended June 30, 2010, additional school bonds were issued to refund a portion of the School Bonds, Series 2005. The principal not refunded totaled \$745,451.

During the year ended June 30, 2010, the District issued \$1,770,000 of school refunding and improvement bonds for the purpose of providing funds to refund a portion of the District's School Bonds, Series 1997, maturing April 1, 2011, April 1, 2012, and April 1, 2014, inclusive, and to pay costs of issuance on the bonds. The refunded bonds are considered defeased and the liability has been removed from the statement of net position. At June 30, 2011, defeased bonds of \$1,315,000 were still outstanding. These defeased bonds retired April 1, 2014.

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NOTE 5 – OTHER INFORMATION

A. Pensions

Political Subdivision Pension Plan

Plan Description

Employees of Milan Special School District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as Milan Special School District, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs.PS/>.

Funding Policy

Milan Special School District requires employees to contribute 5.0 percent of earnable compensation.

Milan Special School District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014 was 3.41% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Milan Special School District is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2014, Milan Special School District's annual pension cost of \$66,042 to TCRS was equal to Milan Special School District's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the

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market value of total investments over a ten-year period. Milan Special School District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 1 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2014	\$ 66,042	100.00%	\$ -
6/30/2013	63,093	100.00%	-
6/30/2012	137,944	100.00%	-

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 99.71 percent funded. The actuarial accrued liability for benefits was \$4.46 million, and the actuarial value of assets was \$4.44 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.01 million. The covered payroll (annual payroll of active employees covered by the plan) \$1.66 million, and the ratio of the UAAL to the covered payroll was 0.79 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)		(c)	((b-a)/c)
7/1/2013	\$ 4,442	\$ 4,456	\$ 13	99.71%	\$ 1,656	0.79%

State Employees, Teachers, and Higher Education Employees Pension Plan

Plan Description

The Milan Special School District contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the members were in the performance of duty. Members joining the plan on or

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after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increase less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed www.tn.gov/treasury/tcrs/Schools.

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for the District is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2013 was 8.88% percent of annual covered payroll. The employer contribution requirement for the District is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2014, 2013, and 2012 were \$740,724, \$729,160, and \$735,705 respectively, equal to the required contributions for each year.

B. Postemployment Healthcare Plan

Plan Description

The District participates in the state-administered Teacher Group Insurance Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The District pays all of its retiree's premiums.

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ARC	\$ 472,000
Interest on NPO	97,691
Adjustment to the ARC	<u>(95,082)</u>
Annual OPEB cost	474,609
Amount of contribution	<u>(182,065)</u>
Increase/decrease in NPO	292,544
Net OPEB obligation - beginning of year	<u>2,170,908</u>
Net OPEB obligation - end of year	<u><u>\$2,463,452</u></u>

<u>Year End*</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
6/30/2014	Teacher Group	\$ 474,609	38%	\$ 2,463,452
6/30/2013	Teacher Group	646,031	26%	2,170,908
6/30/2012	Teacher Group	639,440	23%	1,690,313

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, was as follows:

	<u>Teacher Group Plan</u>
Actuarial valuation date	7/1/2014
Actuarial accrued liability (AAL)	\$ 4,446,000
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,446,000</u>
Actuarial Value of Assets as a % of the AAL	-
Covered payroll (active plan members)	\$10,277,867
UAAL as a percentage of covered payroll	43.26%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2011, actuarial valuation for the Local Education plan, the Projected Unit Credit actuarial cost method was used and the actuarial assumptions included a 4 percent investment rate

**MILAN SPECIAL SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent initially. The rate decreased to 8.75 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. The annual healthcare premium trend rate for the Medicare Supplement plan was 6.50 percent initially. The rate reduced to 6.25 percent for fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2018. Both rates include a 2.5 percent inflation assumption, which also represent projected salary increase. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

C. On-Behalf Payments for Fringe Benefits and Salaries

The District recognizes as revenues and expenses contribution made by the State of Tennessee to the Teacher Group Plan and the Medicare Supplement Plan on behalf of the District's employees. In fiscal year 2014 the State made contributions of \$93,952.

D. Contingent Liabilities and Losses

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although the District's management expects such amounts, if any, to be immaterial.

E. Risk Management

The District is exposed to various risks related to workers' compensation, general liability, automobile liability, and property. The District felt it was more economically feasible to join public entity risk pools as opposed to purchasing commercial insurance for these areas. The District is a member of the Tennessee Risk Management Trust (TNRMT) which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school districts.

The District pays an annual premium to this pool for coverage under the above areas. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. TNRMT reinsures through commercial insurance companies for claims in excess of \$100,000 for each uninsured event. The District's premiums are calculated based on its claims history. The District continues to carry commercial insurance for all other risks of loss, including public officials' bond. Settled claims from these losses have not exceeded commercial insurance coverage in any of the past three fiscal years and there has been no significant reduction in coverage.

F. Prior Period Adjustment

As of June 30, 2014, a prior period adjustment was made in the District-Wide Statement of Activities, to close out bond issuance cost to net position in the amount of \$141,398. The adjustment was made to comply with GASB statement 65, which states that all bond issuance cost must be recognized as an expense in the year incurred.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM
For The Fiscal Year Then Ended June 30, 2014

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
	(a)	(b)	(b) - (a)	(a/b)	(c)	
7/1/2013	\$ 4,442	\$ 4,456	\$ 13	99.71%	\$ 1,656	0.79%
7/1/2011	3,931	3,942	12	99.70%	1,627	0.72%
7/1/2009	3,141	3,156	15	99.52%	1,816	0.84%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation.

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - POST EMPLOYMENT HEALTHCARE PLAN
For The Fiscal Year Then Ended June 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014	Teacher Group	\$ -	\$ 4,446,000	\$ 4,446,000	0.00%	\$ 10,277,867	43.26%
7/1/2013	Teacher Group	-	5,331,000	5,331,000	0.00%	10,061,519	52.98%
7/1/2012	Teacher Group	-	3,164,000	3,164,000	0.00%	9,665,627	32.73%

The above schedule is designed to show the extent to which a post employment healthcare plan has been successful over time in setting aside assets sufficient to cover its actuarial accrued liability.

See independent auditor's report.

SUPPLEMENTARY AND OTHER INFORMATION

**MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2014**

	Capital Projects Fund	Special Revenue Funds		Total
		Federal Projects Fund	Centralized Cafeteria Fund	
Assets:				
Cash	\$ 19,065	\$ -	\$ 78,668	\$ 97,733
Accounts receivable	-	-	1,630	1,630
Due from other governments - grants	-	141,832	22,347	164,179
Inventory	-	-	50,114	50,114
Total assets	\$ 19,065	\$ 141,832	\$ 152,759	\$ 313,656
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ 210	\$ -	\$ 210
Due to other funds	-	141,622	-	141,622
Total liabilities	-	141,832	-	141,832
Fund balances:				
Nonspendable				
Inventory	-	-	50,114	50,114
Restricted				
Operation of non-instructional services	-	-	102,645	102,645
Assigned				
Education	19,065	-	-	19,065
Unassigned	-	-	-	-
Total fund balances	19,065	-	152,759	171,824
Total liabilities and fund balances	\$ 19,065	\$ 141,832	\$ 152,759	\$ 313,656

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

For The Fiscal Year Then Ended June 30, 2014

		Special Revenue Funds		
	Capital Projects Fund	Federal Projects Fund	Centralized Cafeteria Fund	Total
Revenues:				
Charges for current services	\$ -	\$ -	\$ 233,667	\$ 233,667
Interest earned	21	-	-	21
Other local revenues	-	-	2,538	2,538
State revenue	-	-	10,732	10,732
Federal revenue	-	1,601,248	936,290	2,537,538
Total revenues	21	1,601,248	1,183,227	2,784,496
Expenditures:				
Instruction	-	861,628	-	861,628
Support services	-	681,787	-	681,787
Food service	-	-	1,187,995	1,187,995
Total expenditures	-	1,543,415	1,187,995	2,731,410
Excess (deficiency) of revenues over (under) expenditures	21	57,833	(4,768)	53,086
Other financing sources (uses)				
Operating transfers out	-	-	-	-
Net changes in fund balance	21	57,833	(4,768)	53,086
Fund balance - beginning	19,044	(57,833)	156,492	117,703
Increase (decrease) in inventory	-	-	1,035	1,035
Fund balance - ending	\$ 19,065	\$ -	\$ 152,759	\$ 171,824

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Revenues:				
Federal through State:				
Vocational education -				
Basic grants to states	\$ 31,692	\$ 31,692	\$ 31,692	\$ -
Title I	797,627	864,965	786,126	(78,839)
Education of the Handicapped - IDEA	557,188	557,286	511,622	(45,664)
IDEA Preschool	18,730	19,894	19,736	(158)
English language acquisition grants	22,298	22,298	22,213	(85)
Rural Education	62,252	62,252	49,171	(13,081)
Eisenhower	85,901	85,901	78,411	(7,490)
Race to the Top - ARRA	192,952	169,226	102,277	(66,949)
Total federal through state	<u>1,768,640</u>	<u>1,813,514</u>	<u>1,601,248</u>	<u>(212,266)</u>
 Total revenues	 <u>1,768,640</u>	 <u>1,813,514</u>	 <u>1,601,248</u>	 <u>(212,266)</u>
 Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	104,900	109,884	94,558	(15,326)
Aides	134,500	145,879	129,729	(16,150)
Other salaries and wages	158,200	2,645	2,645	-
Substitute teachers	610	920	673	(247)
Non-certified substitute teachers	9,500	7,000	6,793	(207)
Social Security	25,764	13,786	12,598	(1,188)
State retirement	28,229	12,265	11,156	(1,109)
Medical insurance	35,000	22,775	19,996	(2,779)
Medicare	6,581	3,629	3,156	(473)
Instructional supplies	85,850	91,313	62,180	(29,133)
Other supplies and materials	6,234	300	300	-
Equipment	61,300	73,024	47,004	(26,020)
	<u>656,668</u>	<u>483,420</u>	<u>390,788</u>	<u>(92,632)</u>

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Special education program:				
Aides	\$ 260,000	\$ 246,101	\$ 243,756	\$ (2,345)
Other salaries and wages	44,000	42,800	39,023	(3,777)
Substitute teachers	1,500	4,320	2,810	(1,510)
Non-certified substitute teachers	3,300	8,900	4,620	(4,280)
Social Security	18,351	17,150	15,157	(1,993)
State retirement	12,650	11,013	10,092	(921)
Medical Insurance	72,218	69,664	64,625	(5,039)
Medicare	4,620	4,125	3,545	(580)
Other contracted services	38,900	36,500	35,749	(751)
Instructional supplies	16,398	33,220	20,363	(12,857)
Special education equipment	22,500	16,301	14,252	(2,049)
	<u>494,437</u>	<u>490,094</u>	<u>453,992</u>	<u>(36,102)</u>
Vocational education program:				
Instructional supplies and materials	1,990	1,801	1,801	-
Other supplies and materials	792	975	975	-
Equipment	11,000	14,072	14,072	-
	<u>13,782</u>	<u>16,848</u>	<u>16,848</u>	<u>-</u>
Total instruction	<u>1,164,887</u>	<u>990,362</u>	<u>861,628</u>	<u>(128,734)</u>
Support Services:				
Other student support:				
Secretary	11,146	11,146	6,811	(4,335)
Other salaries and wages	55,335	108,335	96,938	(11,397)
Social security	2,242	5,122	4,100	(1,022)
State retirement	1,570	6,556	5,641	(915)
Medical insurance	4,500	10,600	10,434	(166)
Medicare	937	1,621	1,362	(259)
Communication	1,500	1,500	1,455	(45)
Contracts with other school systems	17,951	17,951	16,740	(1,211)
Travel	19,125	16,831	15,772	(1,059)
Other contracted services	14,600	14,600	13,680	(920)
Other supplies and materials	10,000	9,003	4,744	(4,259)
In-service/staff development	7,000	7,000	5,337	(1,663)
Other charges	14,500	16,111	7,972	(8,139)
	<u>160,406</u>	<u>226,376</u>	<u>190,986</u>	<u>(35,390)</u>

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Regular instruction program:				
Supervisor/director	\$ 30,886	\$ 31,800	\$ 31,726	\$ (74)
Secretary(s)	12,100	12,300	12,300	-
Other salaries and wages	220,705	320,473	270,913	(49,560)
Non-certified substitute teachers	550	550	28	(522)
Social Security	15,142	21,157	17,613	(3,544)
State retirement	19,929	29,619	25,204	(4,415)
Medical insurance	5,880	8,750	8,703	(47)
Medicare	2,607	5,066	4,134	(932)
Travel	3,000	1,800	481	(1,319)
Other contracted services	2,000	2,000	1,440	(560)
Other supplies and materials	11,517	32,413	18,459	(13,954)
In-service-staff development	37,196	41,781	22,218	(19,563)
Other charges	300	250	-	(250)
Equipment	5,470	5,070	4,315	(755)
	<u>367,282</u>	<u>513,029</u>	<u>417,534</u>	<u>(95,495)</u>
Special education program:				
Secretary(s)	8,700	9,000	9,000	-
Social Security	510	550	526	(24)
State retirement	300	310	308	(2)
Medical Insurance	-	290	284	(6)
Medicare	120	285	123	(162)
Travel	2,200	1,529	202	(1,327)
Other contracted services	55,100	55,000	49,741	(5,259)
Other supplies and materials	3,250	4,521	3,573	(948)
In-service-staff development	6,300	10,600	8,608	(1,992)
	<u>76,480</u>	<u>82,085</u>	<u>72,365</u>	<u>(9,720)</u>
Vocational education program:				
Travel	1,345	792	792	-
Other charges	239	110	110	-
	<u>1,584</u>	<u>902</u>	<u>902</u>	<u>-</u>
Total support services	<u>605,752</u>	<u>822,392</u>	<u>681,787</u>	<u>(140,605)</u>
Total expenditures	<u>1,770,639</u>	<u>1,812,754</u>	<u>1,543,415</u>	<u>(269,339)</u>

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
FEDERAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Over (Under)</u>
Net changes in fund balance	<u>\$ (1,999)</u>	<u>\$ 760</u>	<u>\$ 57,833</u>	<u>\$ 57,073</u>
Fund balance - beginning			<u>(57,833)</u>	
Fund balance - ending			<u>\$ -</u>	

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
CENTRALIZED CAFETERIA FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Revenues:				
Charges for current services:				
Lunch payments - children	\$ 200,000	\$ 200,000	\$ 136,645	\$ (63,355)
Lunch payments - adults	31,500	31,500	23,353	(8,147)
A La Carte sales	80,000	80,000	64,360	(15,640)
Other charges for services	15,000	15,000	9,309	(5,691)
	<u>326,500</u>	<u>326,500</u>	<u>233,667</u>	<u>(92,833)</u>
Other revenues:				
Miscellaneous	-	-	2,470	2,470
Interest earned	100	100	68	(32)
	<u>100</u>	<u>100</u>	<u>2,538</u>	<u>2,438</u>
State education funds:				
School food service	<u>12,000</u>	<u>12,000</u>	<u>10,732</u>	<u>(1,268)</u>
Federal through State:				
USDA - lunch	480,000	480,000	552,669	72,669
USDA - commodities (non-cash)	65,000	65,000	79,534	14,534
USDA - breakfast	284,000	284,000	288,669	4,669
USDA - other	16,800	16,800	15,418	(1,382)
	<u>845,800</u>	<u>845,800</u>	<u>936,290</u>	<u>90,490</u>
Total revenues	<u>1,184,400</u>	<u>1,184,400</u>	<u>1,183,227</u>	<u>(1,173)</u>
Expenditures:				
Food service:				
Director	59,443	58,233	58,233	-
Clerical personnel	10,033	10,493	10,477	(16)
Cafeteria personnel	320,503	319,503	319,362	(141)
Other salaries & wages	3,000	12,300	12,035	(265)
Non-certified substitute teachers	5,000	-	-	-
Social Security	20,155	22,540	22,136	(404)
State retirement	11,085	12,093	11,691	(402)
Medical insurance	54,376	44,408	44,418	10
Medicare liability	4,714	5,546	5,182	(364)
Communication	591	591	584	(7)
Dues and memberships	-	500	295	(205)
Licenses	-	8,150	8,140	(10)
Maintenance & repair	12,500	5,115	4,988	(127)
Pest control	-	720	720	-

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
CENTRALIZED CAFETERIA FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance- Over (Under)
Travel	\$ 2,000	\$ 2,500	\$ 2,393	\$ (107)
Postal charges	-	300	184	(116)
Permits	-	250	240	(10)
Custodial supplies	-	9,800	9,599	(201)
Food preparation supplies	-	45,550	45,659	109
Food supplies	545,000	549,080	540,623	(8,457)
Office supplies	-	100	56	(44)
Uniforms	-	1,600	1,567	(33)
USDA - commodities (non-cash)	65,000	65,000	79,534	14,534
Other supplies & materials	57,500	1,900	1,897	(3)
In service/staff development	1,500	3,790	3,645	(145)
Other charges	4,000	380	379	(1)
Equipment	8,000	3,958	3,958	-
Total expenditures	1,184,400	1,184,400	1,187,995	3,595
Net changes in fund balance	\$ -	\$ -	(4,768)	\$ (4,768)
Fund balance - beginning			156,492	
Increase (decrease) in inventory			<u>1,035</u>	
Fund balance - ending			<u>\$ 152,759</u>	

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
EDUCATION CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - ACTUAL
For The Fiscal Year Then Ended June 30, 2014**

Revenues:

Other local revenues:

Interest earned

\$ 21

Excess (deficiency) of revenues over (under) expenditures

21

Fund balance - beginning

19,044

Fund balance - ending

\$ 19,065

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF PROPERTY TAX RATES AND ASSESSMENTS - PAST TEN YEARS
June 30, 2014

<u>Year Ended</u> <u>June, 30</u>	<u>Tax Rates</u>	<u>Assessments</u>	<u>Tax Levy</u>
2014	\$ 1.84	\$ 175,188,027	\$ 3,223,460
2013	1.84	175,860,018	3,235,824
2012	1.84	175,774,003	3,234,242
2011	1.84	175,267,174	3,224,916
2010	1.84	155,854,061	2,867,715
2009	2.00	159,464,081	3,189,282
2008	2.01	152,075,084	3,056,709
2007	2.01	158,879,223	3,193,472
2006	2.01	152,057,840	3,056,363
2005	2.01	142,773,666	2,869,751
2004	2.10	139,720,712	2,934,135

The following is the tax levied January 1, 2014:

2015	\$ 1.84	\$ 176,271,861	\$ 3,243,402
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See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF LONG-TERM DEBT
June 30, 2014

<u>Bonds</u>								
Year Ended June 30,	Series 2005		Series 2008		Total Requirements			
	Principal	Interest	Principal	Interest	Principal	Interest	Total	
2015	\$ 600,000	\$ 312,812	\$ 100,000	\$ 40,550	\$ 700,000	\$ 353,362	\$ 1,053,362	
2016	645,000	290,313	100,000	36,900	745,000	327,213	1,072,213	
2017	690,000	266,125	100,000	33,250	790,000	299,375	1,089,375	
2018	730,000	240,250	100,000	29,250	830,000	269,500	1,099,500	
2019	775,000	212,145	100,000	25,250	875,000	237,395	1,112,395	
2020	820,000	181,920	100,000	21,250	920,000	203,170	1,123,170	
2021	860,000	149,530	100,000	17,250	960,000	166,780	1,126,780	
2022	900,000	115,130	100,000	13,000	1,000,000	128,130	1,128,130	
2023	945,000	79,130	100,000	8,750	1,045,000	87,880	1,132,880	
2024	985,000	40,385	100,000	4,375	1,085,000	44,760	1,129,760	
	<u>\$ 7,950,000</u>	<u>\$ 1,887,740</u>	<u>\$ 1,000,000</u>	<u>\$ 229,825</u>	<u>\$ 8,950,000</u>	<u>\$ 2,117,565</u>	<u>\$ 11,067,565</u>	

See independent auditor's report.

**MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF SALARIES AND BONDS
June 30, 2014**

	<u>Bond</u>
Director of Schools	<u>\$ 431,213</u> *

*All other employees of the school district are covered by a fidelity bond of \$150,000 for each occurrence.

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Then Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Pass-through the Tennessee Department of Education			
School Breakfast Program	10.553*	N/A	\$ 288,669
National School Lunch Program - Snack	10.555*	N/A	15,418
National School Lunch Program	10.555*	N/A	552,669
Food-Distribution - Commodities	10.555*	N/A	79,534
			<u>647,621</u>
Total U.S. Department of Agriculture			<u>936,290</u>
U.S. Department of Education			
Pass-through the Tennessee Department of Education			
Special Education - Grants to States			
IDEA, Part B	84.027*	S010A130042	449,222
IDEA, discretionary - graduation rate	84.027*	ED# 3067	48,455
IDEA, Autism	84.027*	ED# 3067	13,945
Additional Special Education Funds	84.027*	ED# 3065	16,458
			<u>528,080</u>
Special Education - Preschool Grants:			
IDEA Preschool	84.173*	N/A	17,203
Preschool Program - Discretionary	84.173*	N/A	1,952
Preschool Program - Discretionary	84.173*	N/A	581
			<u>19,736</u>
Total special education grants			<u>547,816</u>
State Fiscal Stabilization Fund			
ARRA - SFSF Race to the Top	84.395*	S395A100032	22,619
ARRA - SFSF Race to the Top	84.395*	S395A100032	79,658
			<u>102,277</u>
Title I, Grants to Local Education Agencies			
Part A	84.010	S010A120042	519,706
Focus	84.010	S010A110042	209,944
			<u>729,650</u>
Office of Vocational and Adult Education			
Career and Technical Education -			
Basic Grants to States	84.048	47131	<u>31,692</u>

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Cont.)
For The Fiscal Year Then Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
U.S. Department of Education (Cont.)			
Pass-through the Tennessee Department of Education (Cont.)			
English Language Acquisition Grants			
Title III, Part A	84.365	S365A120042	\$ <u>20,858</u>
Office of Elementary and Secondary Education			
Improving Teacher Quality State Grants	84.367	S367A120040	<u>78,411</u>
Rural Education	84.358	S358B120042	<u>49,171</u>
Total US Department of Education			<u>1,559,875</u>
Total federal awards			<u>\$ 2,496,165</u>

*Major federal financial assistance program.

Basis of Presentation:

The accompanying Schedule of Federal Awards and State Financial Assistance summarizes the expenditures of the District under programs of the federal and state governments for the year ended June 30, 2014. The schedule is presented using the modified accrual basis of accounting.

See independent auditor's report.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For The Fiscal Year Then Ended June 30, 2014

<u>State Grantor</u>	<u>Expenditures</u>
Tennessee Department of Education	
Special Programs - Early Childhood	\$ 509,546
Energy Efficient Grant	7,525
Safe Schools	12,816
SSMS	5,426
ACT/Explore Testing	5,176
Coordinated School Health	74,800
Internet ConnectTN	5,919
Technology Fund	156,130
Total State Awards	\$ 777,338

Basis of Presentation:

The accompanying Schedule of Federal Awards and State Financial Assistance summarizes the expenditures of the District under programs of the federal and state governments for the year ended June 30, 2014. The schedule is presented using the modified accrual basis of accounting.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Society of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

Members of the Board of Education
Milan Special School District
Milan, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milan Special School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Milan Special School District's basic financial statements and have issued our report thereon dated November 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Milan Special School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Milan Special School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Milan Special School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Milan Special School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters involving the internal control and its operation that we reported to management of the District in a separate letter dated November 14, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
November 14, 2014

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AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
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**Independent Auditor's Report on Compliance for Each Major
Program and Report on Internal Control over Compliance as
Required by OMB Circular A-133**

Members of the Board of Education
Milan Special School District
Milan, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Milan Special School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Milan Special School District's major federal programs for the year ended June 30, 2014. Milan Special School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Milan Special School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Milan Special School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Milan Special School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Milan Special School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Milan Special School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Milan Special School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Milan Special School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Jackson, Tennessee
November 14, 2014

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued:		Unmodified
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(ies) identified?	_____ yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u> X </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(ies) identified?	_____ yes	<u> X </u> none reported
Type of auditor's report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ yes	<u> X </u> no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster:</u>
	School Lunch/Breakfast Program Cluster (USDA):
10.553	School Breakfast Program
10.555	National School Lunch Program
	Special Education Cluster (IDEA):
84.027	Special Education - Grants to States
84.173	Special Education - Preschool grants
84.395	ARRA - SFSF Race to the Top

Dollar threshold used to distinguish between type A and type B programs:		<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes	<u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

MILAN SPECIAL SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2014

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.